

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2006

CITY OF KOKOMO

HOWARD COUNTY, INDIANA



**FILED**

09/19/2007



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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Phillip P. Williams	01-01-06 to 12-13-07
Mayor	Matt McKillip	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Phillip P. Williams	01-01-06 to 12-31-07
President of the Common Council	Gregory A. Sheline Michael H. Karickhoff	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Superintendent of the Wastewater Utility	Greg Taylor	01-01-05 to 12-31-07



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF KOKOMO, HOWARD COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Kokomo (City), as of and for the year ended December 31, 2006, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis, Schedules of Funding Progress and Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Budgetary Comparison Schedules, that the Governmental Accounting Standards Board has determined are necessary to supplement, although not required to be a part of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

In accordance with Government Auditing Standards, we have also issued our report dated May 15, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

May 15, 2007



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF KOKOMO, HOWARD COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kokomo (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 15, 2007



# **CITY OF KOKOMO, INDIANA**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

The City of Kokomo, Indiana has prepared basic financial statements that are presented herein. The components of the basic financial statements include:

- Management’s Discussion and Analysis (“MD&A”)
- Basic Financial Statements
- Notes to the Financial Statements
- Other Required Supplementary Information (“RSI”)

The MD&A is a component of Required Supplementary Information that introduces the basic financial statements and provides an analytical overview of the City of Kokomo’s financial activities.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The City of Kokomo’s basic financial statements are comprised of the following elements:

#### **Government-Wide Financial Statements**

Government-wide financial statements provide information about the City’s overall financial condition. Changes in the City’s financial position may be measured over time by increases and decreases in the *Statement of Net Assets*. Information on how the City’s net assets changed during the fiscal year is presented in the *Statement of Activities*.

#### **Fund Financial Statements**

Fund financial statements focus on individual parts of the City’s government and report the City’s operations in more detail than the government-wide financial statements. Fund financial statements include the statements for governmental, proprietary, and fiduciary funds. Financial statements for the City’s component units are also presented.

#### **Notes to the Financial Statements**

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 to the financial statements for more detailed information on the elements of the financial statements. Table 1 below summarizes the major features of the basic financial statements.

**Table 1: Major Features of the Basic Financial Statements**

	<b>Government-wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b><i>Governmental Funds</i></b>	<b><i>Proprietary Funds</i></b>	<b><i>Fiduciary Funds</i></b>
Scope	Entire City government (except fiduciary funds) and the City's component units	Activities of the City that are not proprietary or fiduciary	Activities of the City that are operated similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>■ Statement of Net Assets</li> <li>■ Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>■ Balance Sheet</li> <li>■ Statement of revenues, expenditures, and other changes in fund balances</li> <li>■ Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>■ Statement of Net Assets</li> <li>■ Statement of Revenues Expenditures and Other Changes in Fund Net Assets</li> <li>■ Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>■ Statement of fiduciary net assets</li> <li>■ Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	■ Accrual accounting and economic resources focus.	■ Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	■ All assets and liabilities, both financial and capital, and short-term and long-term	■ Accrual accounting and economic resources focus
Type of asset/liability information	■ All assets and liabilities, both financial and capital, and short-term and long-term	■ Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	■ All assets and liabilities, both financial and capital, and short-term and long-term	■ All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	■ All revenues and expenses during the year, regardless of when cash is received or paid	<ul style="list-style-type: none"> <li>■ Revenues for which cash is received during or soon after the end of the year</li> <li>■ Expenditures when goods or services have been received and payment is due during the year or soon thereafter</li> </ul>	■ All revenues and expenses during the year, regardless of when cash is received or paid	■ All revenues and expenses during the year, regardless of when cash is received or paid

# CONDENSED FINANCIAL INFORMATION

## Condensed Comparative Statement of Net Assets

The City of Kokomo had net assets of \$85,889,411 as of December 31, 2005 and \$85,981,225 as of December 31, 2006. The primary reason for the increase in net assets is the scheduled Repayment of Long-Term debt of the City and the Reclassification of the Barrett Law Surplus fund from an agency fund to a special revenue fund. The City uses its assets to provide services to the citizens of Kokomo and to finance outstanding obligations of the City; consequently, a portion of these net assets of the City is restricted for debt service as well as other restrictive covenants set forth by ordinances. Restricted net assets account for \$17,487,792 of the total net assets as of December 31, 2005 and \$14,199,633 as of December 31, 2006. Of the remaining net assets as of December 31, 2006, \$92,160,935 is invested in capital assets (shown net of related debt for those assets) and a negative \$20,379,343, is unrestricted.

Table 2 presents Kokomo's condensed comparative statement of net assets as of December 31, 2005 and December 31, 2006.

Capital assets	61,419,830	60,439,453	59,366,561	60,628,841	120,786,391	121,068,294
Other assets and deferred debits	560,493	484,734	77,082	76,661	637,575	561,395
<b>Total Assets</b>	<b>\$ 83,025,684</b>	<b>\$ 81,410,877</b>	<b>\$ 81,453,991</b>	<b>\$ 82,136,306</b>	<b>\$ 164,479,675</b>	<b>\$ 163,547,183</b>
Liabilities:						
Current Liabilities:						
Accounts payable	\$ 210,854	\$ 954,272	\$ 68,833	\$ 104,317	\$ 279,687	\$ 1,058,589
Payroll and withholdings payable	451,156	477,895	69,847	76,864	521,003	554,759
Accrued interest payable	81,489	89,174	495,442	633,878	576,931	723,052
Bonds, loans and leases payable	565,000	590,000	2,141,959	2,246,959	2,706,959	2,836,959
Other	762,242	354,895	46,010	214,394	808,252	569,289
Non-Current Liabilities:						
Bonds, loans and leases payable (net)	4,559,000	5,502,872	38,042,784	35,569,353	42,601,784	41,072,225
Deferred amount on refunding	-	-	(592,576)	(427,206)	(592,576)	(427,206)
Compensated absences	965,347	910,789	200,395	233,848	1,165,742	1,144,637
Net pension obligation	30,522,482	30,033,654	-	-	30,522,482	30,033,654
<b>Total Liabilities</b>	<b>\$ 38,117,570</b>	<b>\$ 38,913,551</b>	<b>\$ 40,472,694</b>	<b>\$ 38,652,407</b>	<b>\$ 78,590,264</b>	<b>\$ 77,565,958</b>
Assets:						
Invested in capital assets (net of related debt)	\$ 56,295,830	\$ 54,346,582	\$ 19,242,714	\$ 37,814,353	\$ 75,538,544	92,160,935
Restricted for debt service	-	-	17,487,792	14,199,633	17,487,792	14,199,633
Unrestricted	(11,387,716)	(11,849,256)	4,250,791	(8,530,087)	(7,136,925)	(20,379,343)
<b>Total Net Assets</b>	<b>\$ 44,908,114</b>	<b>\$ 42,497,326</b>	<b>\$ 40,981,297</b>	<b>\$ 43,483,899</b>	<b>\$ 85,889,411</b>	<b>\$ 85,981,225</b>

## Condensed Comparative Statement of Activities

Table 3 presents the City's condensed comparative statement of activities for the calendar years ended December 31, 2005 and 2006, as derived from the government-wide Statement of Activities. Over time, increases and decreases in net assets can help measure whether the City's financial position is improving or deteriorating. During calendar year 2006, the net assets of the governmental activities decreased by approximately \$2.6 million, and the net assets of the business-type activities increased by approximately \$2.5 million in addition, the City reclassified the Barrett Law Surplus Fund from an agency fund to a special revenue fund. This information can be found in Note IV-H.

Revenues:	2005	2006	2005	2006	2005	2006
Program revenues:						
Charges for services	\$ 3,567,475	\$ 3,465,850	\$ 11,259,582	\$ 15,533,400	\$ 14,827,057	\$ 18,999,250
Operating grants and contributions	11,323,773	11,677,684	-	-	11,323,773	11,677,684
Capital grants and contributions	3,064,224	2,349,550	-	-	3,064,224	2,349,550
Total Program Revenues	17,955,472	17,493,084	11,259,582	15,533,400	29,215,054	33,026,484
General Revenues:						
Property taxes	30,349,494	29,495,691	-	-	30,349,494	29,495,691
Unrestricted grants and contributions	-	-	88,269	25,937	88,269	25,937
Other	364,667	138,638	-	-	364,667	138,638
Unrestricted investment earnings	307,347	378,257	272,643	904,795	579,990	1,283,052
Total General Revenues	31,021,508	30,012,586	360,912	930,732	31,382,420	30,943,318
Total Revenues	48,976,980	47,505,670	11,620,494	16,464,132	60,597,474	63,969,802
Program Expenses:						
Governmental Activities:						
General government	16,691,602	15,438,435			16,691,602	15,438,435
Public safety	27,495,485	22,313,276			27,495,485	22,313,276
Highways and streets	7,544,343	9,191,852			7,544,343	9,191,852
Culture and recreation	2,684,829	2,980,323			2,684,829	2,980,323
Interest on debt	197,891	226,228			197,891	226,228
Total Governmental Activities	54,614,150	50,150,114	-	-	54,614,150	50,150,114
Business-Type Activities:						
Wastewater			13,083,916	13,961,530	13,083,916	13,961,530
Total Program Expenses	54,614,150	50,150,114	13,083,916	13,961,530	67,698,066	64,111,644
Change in net assets	(5,637,170)	(2,644,444)	(1,463,422)	2,502,602	(7,100,592)	(141,842)
Beginning Net Assets	11,267,259	44,908,114	26,193,303	40,981,297	37,460,562	85,889,411
Restatement of Net Assets:						
Correction of errors for business-type activities (See note IV, H)	39,278,025	233,656	16,251,416		55,529,441	233,656
Ending Net Assets	\$ 44,908,114	\$ 42,497,326	\$ 40,981,297	\$ 43,483,899	\$ 85,889,411	\$ 85,981,225

### **Comparative Schedule of Program Expenses and Revenues for Governmental Activities**

Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were not sufficient to cover program expenses for governmental activities in either 2005 or 2006. Therefore, general revenues, mainly taxes, supported the net program expenses of these governmental activities.

<b>Table 4. Program Expenses and Revenues For Governmental Activities For the calendar years ended December 31, 2005 and 2006</b>						
	Program Expenses		Program Revenues		Net Program Revenues/ (Expenses) (a)	
	2005	2006	2005	2006	2005	2006
Primary Government:						
General government	\$ 16,691,602	\$ 15,438,435	\$ 13,886,401	\$ 13,282,464	\$ (2,805,201)	\$ (2,155,971)
Public safety	27,495,485	22,313,276	742,610	757,255	(26,752,875)	(21,556,021)
Highways and streets	7,544,343	9,191,852	2,633,375	2,877,845	(4,910,968)	(6,314,007)
Sanitation				575,520	-	575,520
Culture and recreation	2,684,829	2,980,323	693,086		(1,991,743)	(2,980,323)
Interest on debt	197,891	226,228	-	-	(197,891)	(226,228)
Totals	<u>\$ 54,614,150</u>	<u>\$ 50,150,114</u>	<u>\$ 17,955,472</u>	<u>\$ 17,493,084</u>	<u>\$ (36,658,678)</u>	<u>\$ (32,657,030)</u>

(a) Net Program Expenses are mainly supported by taxes.

### **Comparative Schedule of Program Expenses and Revenues for Business-Type Activities**

Table 5 presents program expenses and revenues for business-type activities. Program revenues generated from business-type activities were insufficient to cover program expenses in 2005, but were sufficient to cover program expenses in 2006. The Kokomo Wastewater Utility establishes user fees sufficient to generate revenues to cover program expenses. Any revenues in excess of program expenses are set-aside in restricted funds, which are used for debt service, reserves and to fund ongoing capital improvements.

<b>Table 5. Program Expenses and Revenues For Business-Type Activities For the calendar years ended December 31, 2005 and 2006</b>						
	Program Expenses		Program Revenues		Net Program Revenues/ (Expenses)	
	2005	2006	2005	2006	2005	2006
Primary Government:						
Wastewater	<u>\$ 13,083,916</u>	<u>\$ 13,961,530</u>	<u>\$ 11,259,582</u>	<u>\$ 15,533,400</u>	<u>\$ (1,824,334)</u>	<u>\$ 1,571,870</u>

## **FUND ANALYSIS**

The following information highlights the activities of the governmental and Business-Type funds:

### **Governmental Funds**

Governmental funds receive money through taxes, licenses and permits, intergovernmental revenues, charges for services provided, fees for fines and forfeits and other revenues (such as interest on investments). These funds are in turn used to provide services for the general government, public safety, highways and streets, sanitation, culture and recreation, redevelopment, repayment of debt and for investments in new capital assets for the City. As of December 31, 2006, Kokomo's governmental funds reported fund balances of \$14,455,773, a decrease of \$1,236,752 from the beginning of 2006.

#### ***General Fund***

The fund balance at December 31, 2006 was \$5,517,902 a decrease of \$936,934 from the beginning of the year. The decrease was due to a major employer in Kokomo going thru bankruptcy proceedings and not paying property taxes in 2006.

#### ***Other Governmental Funds***

The fund balances in other governmental funds (e.g. parks and recreation, airport, etc) decreased by \$299,818 in 2006. The decrease was due to a major employer in Kokomo going thru bankruptcy proceedings and not paying property taxes in 2006.

### **Business-Type Funds**

The City of Kokomo's proprietary funds, the City of Kokomo Wastewater Utility, reported net assets as of December 31, 2006 of \$43,867,455. Notable items as of December 31, 2006 were unrestricted cash of \$4,239,402 (primarily used to operate the utility) and \$14,199,633 reported as restricted cash (used to satisfy restrictive bond covenants). The utility had \$3,865,260 of current liabilities and \$34,787,147 of long-term liabilities. For the calendar year ended December 31, 2006, the wastewater utility recorded a \$2,445,293 increase in net assets. The primary reason for the increase in net assets was increased residential and commercial revenue due to a rate increase and revenue generated from the stormwater fee collections that began January 1, 2006.

## **BUDGET VARIANCES IN THE GENERAL FUND**

Each year, Kokomo prepares an annual budget for all tax-supported (“Controlled”) funds. This budget, from time to time, requires adjustments to reflect unexpected changes or to reflect decisions made by the City. The information system used by the City of Kokomo produces the Detail Budget Report that summarizes all budget adjustments and presents a budget to actual comparison for the budget year. This report is part of the required supplementary information of the basic financial statements. In accordance with the provisions of GASB 34, Kokomo should explain any significant budget variations in the MD&A.

In total, **spending in** the general fund was \$760,815 under budget for 2006. The budget for the year was \$38,308,981. Of this amount, the City disbursed \$37,548,165.

# CAPITAL ASSET, LONG-TERM DEBT ACTIVITY AND INFRASTRUCTURE

## Capital Asset Activity

During 2006, Kokomo disbursed, from governmental funds, approximately \$4,377,000 for capital outlays. During that same period, Kokomo retired or replaced approximately \$3,390,000 of existing assets. As of December 31, 2006, Kokomo had approximately \$142 million of assets in service or under construction in governmental funds. The depreciated value of these assets, as of December 31, 2006, was \$60,439,453. Table 6 summarizes the capital assets for governmental activities. For further information on the capital asset activity of the City, please refer to the notes to the financial statements provided as part of the basic financial statements.

<b>Table 6. Capital Assets For Governmental Activities As of December 31, 2006</b>				
	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 18,984,854	\$ 34,288		\$ 19,019,142
Rights of way				-
Construction in progress	1,645,294	97,443	(1,306,244)	436,493
Buildings	15,675,923	93,807		15,769,730
Improvements other than buildings	3,250,135	82,672		3,332,807
Machinery and equipment	14,216,261	2,748,594	(2,083,987)	14,880,868
Infrastructure	87,422,527	1,320,325		88,742,852
Total Assets	141,194,994	4,377,129	(3,390,231)	142,181,892
Less accumulated depreciation	(79,775,164)	(3,714,560)	1,747,285	(81,742,439)
Total Net Assets	<u>\$ 61,419,830</u>	<u>\$ 662,569</u>	<u>\$ (1,642,946)</u>	<u>\$ 60,439,453</u>



During 2006, Kokomo expensed, from business type funds, \$4,007,318 for capital outlays. These assets are attributable to the Kokomo Wastewater Utility. As of December 31, 2006, Kokomo had \$111,903,371 of assets in service or under construction in the Wastewater Utility. The depreciated value of these assets, as of December 31, 2006, was \$60,628,840. Table 7 summarizes the capital assets for business-type activities. For further information on the capital asset activity of the Wastewater Utility, please refer to the notes to the financial statements provided as part of the basic financial statements.

	As of December 31, 2006			
	Beginning Balance	Increases	Decreases	Ending Balance
Land and other non-depreciable assets	\$ 110,854			\$ 110,854
Construction in Progress	289,363	\$3,409,494		3,698,857
Infrastructure				-
Collection System	41,409,561	38,732		41,448,293
Stormwater System	36,787,803	135,530		36,923,333
Buildings	18,457,927			18,457,927
Improvements other than buildings	754,025			754,025
Machinery and equipment	10,224,320	423,572	(137,810)	10,510,082
Total Assets	108,033,853	4,007,328	(137,810)	111,903,371
Less accumulated depreciation	(48,667,292)	(2,720,437)	113,198	(51,274,531)
Total Net Assets	\$ 59,366,561	\$ 1,286,891	\$ (24,612)	\$ 60,628,840

### **Long-Term Debt**

The City of Kokomo has outstanding General Obligation Bonds, outstanding Revenue Bonds, outstanding compensated absences payable, net pension obligations and loans payable from the State Revolving Fund as of 12/31/2006.

The Kokomo Beach Aquatic Center General Obligation Bonds were issued to finance the aquatic center and they mature at interest rates ranging from 3.75% to 4.375%. The amount outstanding on these bonds, as of December 31, 2006 was \$3,665,000. During 2006, the City paid \$565,000 toward the retirement of these bonds.

The City of Kokomo also has outstanding revenue bonds used to finance the acquisition and construction of capital assets related to the wastewater utility. The bonds were issued in 1999 and 2005 and mature annually at interest rates ranging from 4% to 5%. The amount outstanding on these bonds, as of December 31, 2006 was \$18,385,000. During 2006, the City paid a total of \$2,140,000 toward the repayment of these outstanding revenue bonds.

Next, the City has compensated absences payable of \$910,789 as of December 31, 2006 and the Wastewater Utility had compensated absences payable of \$233,848 as of December 31, 2006. This amount represents accrued time off that is the liability of the City and the Wastewater Utility to pay to employees as the employees use the benefit.

In addition, the City has a pension benefit obligation of \$30,033,654 as of December 31, 2006. This amount represents the liability benefits due to retirees from the City. This amount is based upon actuarial information provided to the City.

Finally, the Wastewater Utility has two loans with the Indiana State Revolving Fund to finance improvements to the utility. These loans were outstanding as of December 31, 2006 in the amount of \$19,400,000 and will be in repayment through 2020. Of this amount, \$355,000 was paid in 2006 and another \$370,000 is due in 2007.

For additional information on the Long-Term Liabilities of the City of Kokomo, please refer to note 4F of the Notes to the Financial Statements.

### **Infrastructure**

During 2006, the City constructed \$1,320,325 of new infrastructure projects to benefit the City. For additional information on the infrastructure of the City, please refer to Note 4B in the Notes to the Financial Statements.

## **OVERALL ANALYSIS**

Financial and project highlights of Kokomo (as a whole) during the calendar year ended December 31, 2006, include the following:

- The fund balances of the City's Proprietary Funds increased by approximately \$2,502,602 during calendar year 2006.
- Several local companies experienced job growth in 2006 like Victory Packaging, Trialon and Hayne International
- Daimler-Chrysler committed to invest \$108 million into their Kokomo facilities.

- Received for the second year an unqualified opinion on the financial audit from the Indiana State Board of Accounts.
- Continued our disciplined financial recovery plan and communication with the public.
- Continued to lobby federal officials for funds to continue redevelopment of the Continental Steel superfund site.
- Kokomo obtained just over \$1 million in federal Community Development Block Grants to revitalize sidewalks along Washington and South Main Streets.
- The City retained \$400,000 in local funds to preserve the heritage and property values along West Sycamore.
- Kokomo achieved a \$1.2 million savings in city employee worker compensation and general liability insurance through plan modifications while still providing excellent coverage to our valued employees.
- The City completed many beautification projects throughout the community including the first ever hanging flowerpots downtown and planting flowers in all public spaces around downtown. In addition the City replaced concrete with “wow factor” landscaping in traffic islands and many medians around town to include South Washington, North Berkley, North Calumet and Defenbaugh.
- In 2006, drug arrests increased 35% while drug investigations initiated were at an all time high.
- Kokomo Police Department was able to accomplish goal of decreasing crime by 5% in targeted areas of the city.
- EPA returned to clean up Wildcat Creek to complete the transformation of the Continental Steel site into the Highland Park Recreation Center.
- Eight new firms became part of the business incubator which continues to bring new technologies to the market and employ Kokomoans at an average salary of nearly \$50,000 per year.
- Developed cooperative relationship with Indiana’s Department of Workforce Development to obtain a \$15 million grant to help retool the skills of autoworkers in the ever changing industry.
- Made improvements to several of our parks by installing new and better playground equipment and more walk paths. Set up a new t-ball field and contributed to a new Cub Scout troop. Adding long overdue air conditioning to the Haynes museum.
- Led the initial effort underway to restructure and improve the effectiveness of all Howard County and Kokomo groups involved in Economic Development.
- Negotiated an innovative deal that will result in a new, modern fire station for the city of Kokomo at no cost to the taxpayers.
- Restricted the expansion of sexually oriented businesses by improving local zoning requirements.
- Haynes International has come out of reorganization, added jobs and had a successful public offering.

- St. Joseph hospital is partnering on the Sycamore street beautification and a new public-private partnership will be announced involving a beautification project to be start on the northern part of the City.
- Finished several sewer projects and started a few major projects in order to clean up the environment and reduce flooding, including new sewers and curbs in Forest Park.
- Focused on neighborhood aesthetic improvements by putting in curbs, grass medians, trees, new pavement, new trash collection systems and new sidewalks.
- Project Lifesaver has cut traffic accidents by 11.6%.
- Began plans for largest economic development project, US 31.
- City was presented last year with prestigious City Livability Award and has been chosen as a finalist again this year.

## **ECONOMIC CONDITIONS AND OUTLOOK**

Kokomo, *the City of Firsts*, is truly a growing and innovative community and our efforts to improve our quality of life are paying off. All of our City resources are focused on achieving our five strategic goals of growing and diversifying job opportunities, beautifying and making Kokomo a more vibrant community, modernizing Kokomo's public and private infrastructure, making government more open, efficient and proactive and keeping us safe in our homes and neighborhoods.

However, as with many cities in Indiana the city faces difficult financial decision in the near future in order to fund government. Contractual obligations, increasing pension liabilities, rising health care costs and increasing utility expenses will quickly use all available revenue streams and cash reserves the city has at it disposal. In order for the city to remain on firm financial footing, all services will need to be evaluated on a basis of whether government should provide the service or would the taxpayers be better served if the service were provided by the private sector.

Looking back upon 2005, 2006, and thus far in 2007 the City of Kokomo had significant highlights that are moving our community forward and keeping Kokomo a great place to live, work and raise a family. For more information on Kokomo, the City of Firsts, please visit our web site at [www.CityofKokomo.org](http://www.CityofKokomo.org) or call the Mayor's office at (765) 456-7444.

## **CONTACT THE CITY'S FINANCIAL MANAGEMENT**

Questions about this report or requests for additional financial information may be addressed to:

Mayor Matt McKillip  
100 South Union Street  
Kokomo, Indiana 46901  
Telephone: (765) 456-7444  
[www.cityofkokomo.org](http://www.cityofkokomo.org)

CITY OF KOKOMO  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 15,986,892	\$ 4,239,402	\$ 20,226,294
Receivables (net of allowances for uncollectibles):			
Taxes	2,047,025	-	2,047,025
Accounts	801,980	2,749,847	3,551,827
Special assessments	28,930	-	28,930
Intergovernmental	1,531,611	-	1,531,611
Internal balances	383,556	(383,556)	-
Inventories	90,252	241,922	332,174
Prepaid expense	43,705	6,546	50,251
Deferred debits	57,473	453,671	511,144
Restricted assets:			
Cash and cash equivalents	-	14,199,633	14,199,633
Capital assets:			
Land, improvements and construction in progress	19,455,635	3,809,711	23,265,346
Other capital assets, net of depreciation	40,983,818	56,819,130	97,802,948
<b>Total assets</b>	<b>81,410,877</b>	<b>82,136,306</b>	<b>163,547,183</b>
<u>Liabilities</u>			
Accounts payable	954,272	104,317	1,058,589
Accrued payroll and withholdings payable	477,895	76,864	554,759
Claims payable	4,728	214,394	219,122
Accrued interest payable	89,174	-	89,174
Unearned revenue	350,167	-	350,167
Matured unpaid bonds and coupons	-	1,959	1,959
Payable from restricted assets:			
Accrued bond interest	-	633,878	633,878
Revenue bonds - due within one year	-	2,245,000	2,245,000
Noncurrent liabilities:			
Due within one year:			
General obligation bonds	590,000	-	590,000
Compensated absences	444	-	444
Capital lease obligations	568,820	-	568,820
Notes and loans	-	355,000	355,000
Due in more than one year:			
General obligation bonds payable (net of discounts or premiums)	3,075,000	-	3,075,000
Compensated absences	910,345	233,848	1,144,193
Revenue bonds (net of discounts or premiums)	-	16,169,353	16,169,353
Deferral of loss on refunding	-	(427,206)	(427,206)
Capital lease obligations	1,859,052	-	1,859,052
Notes and loans	-	19,045,000	19,045,000
Net pension obligation	30,033,654	-	30,033,654
<b>Total liabilities</b>	<b>38,913,551</b>	<b>38,652,407</b>	<b>77,565,958</b>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	54,346,582	37,814,353	92,160,935
Restricted for:			
Debt service	-	14,199,633	14,199,633
Employee benefits	2,067,570	-	2,067,570
Unrestricted	(13,916,826)	(8,530,087)	(22,446,913)
<b>Total net assets</b>	<b>\$ 42,497,326</b>	<b>\$ 43,483,899</b>	<b>\$ 85,981,225</b>

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 15,438,435	\$ 2,421,137	\$ 8,511,777	\$ 2,349,550	\$ (2,155,971)	\$ -	\$ (2,155,971)
Public safety	22,313,276	570,790	186,465	-	(21,556,021)	-	(21,556,021)
Highways and streets	9,191,852	10,170	2,867,675	-	(6,314,007)	-	(6,314,007)
Sanitation	-	463,753	111,767	-	575,520	-	575,520
Culture and recreation	2,980,323	-	-	-	(2,980,323)	-	(2,980,323)
Interest on long-term debt	226,228	-	-	-	(226,228)	-	(226,228)
Total governmental activities	50,150,114	3,465,850	11,677,684	2,349,550	(32,657,030)	-	(32,657,030)
Business-type activities:							
Wastewater	13,961,530	15,533,400	-	-	-	1,571,870	1,571,870
Total primary government	<u>\$ 64,111,644</u>	<u>\$ 18,999,250</u>	<u>\$ 11,677,684</u>	<u>\$ 2,349,550</u>	<u>(32,657,030)</u>	<u>1,571,870</u>	<u>(31,085,160)</u>
General revenues:							
Property taxes					29,495,691	-	29,495,691
Miscellaneous					138,638	-	138,638
Grants and contributions not restricted to specific programs					-	25,937	25,937
Unrestricted investment earnings					378,257	904,795	1,283,052
Total general revenues					<u>30,012,586</u>	<u>930,732</u>	<u>30,943,318</u>
Change in net assets					<u>(2,644,444)</u>	<u>2,502,602</u>	<u>(141,842)</u>
Net assets - beginning					44,908,114	40,981,297	85,889,411
Prior period adjustment (see Note IV.H.)					<u>233,656</u>	-	<u>233,656</u>
Net assets - beginning as restated					<u>45,141,770</u>	<u>40,981,297</u>	<u>86,123,067</u>
Net assets - ending					<u>\$ 42,497,326</u>	<u>\$ 43,483,899</u>	<u>\$ 85,981,225</u>

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2006

<u>Assets</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 4,623,126	\$ 8,798,017	\$ 13,421,143
Receivables (net of allowances for uncollectibles):			
Taxes	1,867,045	179,980	2,047,025
Accounts	792,546	9,198	801,744
Special assessments	-	28,930	28,930
Intergovernmental	1,200,045	331,566	1,531,611
Total assets	<u>\$ 8,482,762</u>	<u>\$ 9,347,691</u>	<u>\$ 17,830,453</u>

Liabilities and Fund Balances

Liabilities:			
Accounts payable	\$ 349,859	\$ 110,726	\$ 460,585
Accrued payroll and withholdings payable	438,131	39,764	477,895
Compensated absences payable	444	-	444
Unavailable revenue	1,876,723	208,866	2,085,589
Unearned revenue	299,703	50,464	350,167
Total liabilities	<u>2,964,860</u>	<u>409,820</u>	<u>3,374,680</u>
Fund balances:			
Reserved for:			
Encumbrances	89,619	540,872	630,491
Unreserved, reported in:			
General fund	5,428,283	-	5,428,283
Special revenue funds	-	6,302,256	6,302,256
Capital projects funds	-	2,094,743	2,094,743
Total fund balances	<u>5,517,902</u>	<u>8,937,871</u>	<u>14,455,773</u>
Total liabilities and fund balances	<u>\$ 8,482,762</u>	<u>\$ 9,347,691</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	60,439,453
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,085,589
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	2,451,126
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(6,182,046)
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(910,345)
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	191,430
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(30,033,654)

Net assets of governmental activities	<u>\$ 42,497,326</u>
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The notes to the financial statements are an integral part of this statement.



CITY OF KOKOMO  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 25,601,220	\$ 2,468,666	\$ 28,069,886
Licenses and permits	93,058	87,442	180,500
Intergovernmental	8,169,485	6,807,789	14,977,274
Charges for services	2,266,443	1,157,165	3,423,608
Fines and forfeits	141,653	24,767	166,420
Other	493,198	111,031	604,229
Total revenues	<u>36,765,057</u>	<u>10,656,860</u>	<u>47,421,917</u>
Expenditures:			
Current:			
General government	9,291,885	4,008,345	13,300,230
Public safety	22,551,782	331,905	22,883,687
Highways and streets	4,283,224	2,942,778	7,226,002
Culture and recreation	-	2,650,116	2,650,116
Debt service:			
Principal	250,322	636,154	886,476
Interest	26,254	180,794	207,048
Capital outlay:			
Highways and streets	2,644,167	970,383	3,614,550
Total expenditures	<u>39,047,634</u>	<u>11,720,475</u>	<u>50,768,109</u>
Deficiency of revenues under expenditures	<u>(2,282,577)</u>	<u>(1,063,615)</u>	<u>(3,346,192)</u>
Other financing sources (uses):			
Transfers in	-	155,757	155,757
Transfers out	(122,400)	(33,357)	(155,757)
Capital leases	1,447,609	407,741	1,855,350
Total other financing sources and uses	<u>1,325,209</u>	<u>530,141</u>	<u>1,855,350</u>
Special item:			
Proceeds from sale of assets	20,434	-	20,434
Net change in fund balances	<u>(936,934)</u>	<u>(533,474)</u>	<u>(1,470,408)</u>
Fund balances - beginning	6,454,836	9,237,689	15,692,525
Prior period adjustment (see Note IV.H.)	-	233,656	233,656
Fund balances - beginning as restated	<u>6,454,836</u>	<u>9,471,345</u>	<u>15,926,181</u>
Fund balances - ending	<u>\$ 5,517,902</u>	<u>\$ 8,937,871</u>	<u>\$ 14,455,773</u>

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances)	\$ (1,470,408)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(2,499,023)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(336,702)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	31,230
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	867,296
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	488,828
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	8,501
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	393,124
Net change in other assets used in governmental activities are not financial resources and, therefore, are not reported in funds.	<u>(127,290)</u>
Change in net assets of governmental activities (Statement of Activities)	<u><u>\$ (2,644,444)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2006

<u>Assets</u>	<u>Wastewater Utility</u>	<u>Internal Service Fund</u>
Current assets:		
Cash and cash equivalents	\$ 4,239,402	\$ 2,565,749
Accounts receivable (net of allowance)	2,749,847	236
Inventories	241,922	-
Prepaid items	6,546	-
Total current assets	<u>7,237,717</u>	<u>2,565,985</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant accounts	<u>14,199,633</u>	-
Deferred charges	<u>453,671</u>	-
Capital assets:		
Land, improvements to land and construction in progress	3,809,711	-
Other capital assets (net of accumulated depreciation)	<u>56,819,130</u>	-
Total capital assets	<u>60,628,841</u>	-
Total noncurrent assets	<u>75,282,145</u>	-
Total assets	<u>82,519,862</u>	<u>2,565,985</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	104,317	-
Wages payable	76,864	-
Compensated absences	233,848	-
Claims payable	214,394	493,687
Other current payable	-	4,728
Current liabilities payable from restricted assets:		
Matured unpaid bonds and coupons	1,959	-
Notes and loans payable	355,000	-
Revenue bonds payable	2,245,000	-
Accrued interest payable	<u>633,878</u>	-
Total current liabilities	<u>3,865,260</u>	<u>498,415</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts or premiums)	16,169,353	-
Deferral of gain (loss) on refunding	(427,206)	-
Loan payable	<u>19,045,000</u>	-
Total noncurrent liabilities	<u>34,787,147</u>	-
Total liabilities	<u>38,652,407</u>	<u>498,415</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	14,515,565	-
Restricted for debt service	14,199,633	-
Restricted for employee benefits	-	2,067,570
Unrestricted	<u>15,152,257</u>	-
Total net assets	43,867,455	<u>\$ 2,067,570</u>
Amounts reported for business-type activities in the Statement of Net Assets are different because:		
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	<u>(383,566)</u>	
Net assets of business-type activities	<u>\$ 43,483,889</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2006

	Wastewater Utility	Internal Service Fund
Operating revenues:		
Charges for services	\$ -	\$ 9,243,255
Penalties	269,210	-
Measured revenue:		
Residential and commercial	14,331,300	-
Storm Water fees	591,481	-
Tap fees	249,800	-
Other	<u>34,300</u>	<u>508,566</u>
Total operating revenues	<u>15,476,091</u>	<u>9,751,821</u>
Operating expenses:		
Collection system - operations and maintenance	2,412,345	-
Treatment and disposal expense - operations and maintenance	3,277,810	-
Lab services - operations and maintenance	256,569	-
Customer accounts	792,803	-
Sanitary engineering - operations and maintenance	828,826	-
Administration and general	805,547	-
Pretreatment - operations and maintenance	339,750	-
Storm Water - operations and maintenance	276,511	-
Insurance claims and premiums	134,824	-
Employee pensions and benefits	-	9,429,096
Depreciation and amortization	2,720,436	-
Miscellaneous expenses	<u>363,199</u>	<u>-</u>
Total operating expenses	<u>12,208,620</u>	<u>9,429,096</u>
Operating income	<u>3,267,471</u>	<u>322,725</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	904,795	127,708
Miscellaneous revenue	25,937	-
Interest expense	(1,544,460)	-
Miscellaneous expense	<u>(208,450)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>(822,178)</u>	<u>127,708</u>
Change in net assets	2,445,293	450,433
Total net assets - beginning	<u>41,422,162</u>	<u>1,617,137</u>
Total net assets - ending	<u>\$ 43,867,455</u>	<u>\$ 2,067,570</u>
Change in net assets	\$ 2,445,293	
Some amounts reported for business-type activities in the Statement of Activities are different because:		
The net revenue of certain internal service funds is reported with business-type activities.	<u>57,309</u>	
Change in net assets of business-type activities	<u>\$ 2,502,602</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2006

	Wastewater Utility	Internal Service Fund
Cash flows from operating activities:		
Receipts from customers and users	\$ 14,995,189	\$ 9,752,311
Payments to suppliers	(4,437,490)	(9,633,505)
Payments to employees	(5,019,693)	-
Net cash provided by operating activities	<u>5,538,006</u>	<u>118,806</u>
Cash flows from noncapital financing activities:		
Other nonoperating revenues	<u>25,937</u>	-
Cash flows from capital and related financing activities:		
Proceeds from capital debt	156,155	-
Acquisition and construction of capital assets	(3,996,632)	-
Principal paid on capital debt	(2,495,000)	-
Interest paid on capital debt	(1,406,024)	-
Proceeds from sales of capital assets	<u>3,151</u>	-
Net cash used by capital and related financing activities	<u>(7,738,350)</u>	-
Cash flows from investing activities:		
Interest received	<u>904,795</u>	<u>127,708</u>
Net increase (decrease) in cash and cash equivalents	(1,269,612)	246,514
Cash and cash equivalents, January 1 (Including \$17,487,792, reported in restricted accounts)	<u>19,708,647</u>	<u>2,319,235</u>
Cash and cash equivalents, December 31 (Including \$14,199,633 reported in restricted accounts)	<u>\$ 18,439,035</u>	<u>\$ 2,565,749</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 3,267,471</u>	<u>\$ 322,725</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,720,436	-
(Increase) decrease in assets:		
Accounts receivable	(480,902)	490
Inventories	(40,782)	-
Prepaid items	(895)	-
Increase (decrease) in liabilities:		
Accounts payable	32,208	(204,409)
Accrued wages payable	7,017	-
Compensated absence payable	<u>33,453</u>	-
Total adjustments	<u>2,270,535</u>	<u>(203,919)</u>
Net cash provided by operating activities	<u>\$ 5,538,006</u>	<u>\$ 118,806</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ 3,276	\$ -

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 543,774	\$ 1,388,516	\$ 1,996,662
Receivables:			
Loans	-	351,483	-
Taxes	147,639	-	-
Intergovernmental	11,309	-	-
Total receivables	158,948	351,483	-
Total assets	702,722	1,739,999	\$ 1,996,662
<u>Liabilities</u>			
Deferred revenue - unavailable	147,639	-	\$ -
Accounts payable	42	300	-
Payroll withholdings payable	-	-	1,924,898
Trust payable	-	-	71,764
Total liabilities	147,681	300	\$ 1,996,662
<u>Net Assets</u>			
Held in trust for:			
Employees' pension benefits and other purposes	555,041	1,739,699	
Total net assets	\$ 555,041	\$ 1,739,699	

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2006

<u>Additions</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Taxes	\$ 2,025,054	\$ -
Contributions:		
Employer	3,689,323	-
Plan members	18,244	-
Miscellaneous	-	157,968
Total contributions	<u>5,732,621</u>	<u>157,968</u>
Investment income:		
Interest	<u>19,595</u>	<u>-</u>
Total additions	<u>5,752,216</u>	<u>157,968</u>
<u>Deductions</u>		
Benefits	6,857,012	-
Administrative expense	-	105,700
Total deductions	<u>6,857,012</u>	<u>105,700</u>
Changes in net assets	(1,104,796)	52,268
Net assets - beginning	<u>1,659,837</u>	<u>1,687,431</u>
Net assets - ending	<u>\$ 555,041</u>	<u>\$ 1,739,699</u>

The notes to the financial statements are an integral part of this statement.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Kokomo (primary government) was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health, welfare and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, and urban redevelopment and housing.

The accompanying financial statements present the activities of the primary government. There are no significant component units which require inclusion.

Related Organizations

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the Board of Zoning Appeals, City Hall Review Commission, City Traffic Commission, Community Development Block Grant Citizen's Review Committee, Economic Development Commission, Family Self-Sufficiency Task Force, Historic Review Board, Housing Authority Board, Howard County Alcoholic Beverage Commission, Howard County/City of Kokomo Cooperative Flood Mitigation and Storm Water, Human Rights Commission, Kokomo-Howard County Visitors and Convention Bureau, Kokomo Community Arts Commission, Kokomo-Howard County Emergency Management Advisory Council, Kokomo Job Training Redevelopment Commission, Mayor's Community Based Council – Substance Abuse Prevention, Mayor's Veteran's Advisory Council, and Urban Enterprise Association.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

The primary government reports the following major governmental fund:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The primary government reports the following major proprietary fund:

The wastewater utility fund accounts for the operation of the primary government's wastewater treatment plant, pumping stations and collection systems.

Additionally, the primary government reports the following fund types:

The internal service fund accounts for self-group medical insurance provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit developing companies in the Kokomo area.

Agency funds account for assets held by the primary government as an agent for payroll withholding entities.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The primary government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the governmental and proprietary funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables" (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year-end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available. All property taxes collected by the County Treasurer and available for distribution were distributed to the primary government prior to December 31 of the year collected.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets balance sheet because they are maintained separately and their use is limited by ordinance or applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	10 to 50 years
Equipment	5,000	Straight-line	5 to 20 years
Roads – collectors and residential	5,000	Straight-line	20 years
Storm Water drains	5,000	Straight-line	40 years
Wastewater distribution and collection systems	5,000	Straight-line	50 years

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

For depreciated assets, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed

7. Compensated Absences

The City uses paid time-off to provide for absences of eligible employees. The paid time-off replaced vacation, sick, and personal time but will continue to be based on years of completed service. Paid time-off will be accumulated on actual hours worked per week and the years of completed service. The accumulations of paid time-off may be carried over from year to year with a maximum carryover of 480 hours. Excess accumulations over the maximum of 480 hours will be reduced in December of each year through a payout if the employee uses at least ten days of paid time-off hours during the calendar year or 50% of available time earned, whichever is less. Accumulated paid time-off is paid to employees through cash payments upon termination.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

1. The governmental fund balance sheet includes a reconciliation between the fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Capital assets, not being depreciated:	
Land	\$ 19,019,142
Construction in progress	436,493

Capital assets, being depreciated (net of depreciation)	
Buildings	7,695,974
Improvements other than buildings	2,325,922
Machinery and equipment	6,211,954
Infrastructure being depreciated	<u>24,749,968</u>

Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 60,439,453</u>
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2. Another element of that reconciliation explains that "Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets." The details of this difference are as follows:

Fund balance	\$ 2,067,570
Internal balance	<u>383,556</u>

Net adjustment to increase fund balance – total governmental funds to arrive at net assets - governmental activities	<u>\$ 2,451,126</u>
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3. Another element of that reconciliation explains that "liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this are as follows:

Bonds payable	\$ (3,665,000)
Capital lease obligations, long-term	(2,427,872)
Interest payable	<u>(89,174)</u>

Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (6,182,046)</u>
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4. Another element of that reconciliation explains that "Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this are as follows:

Inventories	\$ 90,252
Prepaid expense	43,705
Deferred debits	<u>57,473</u>

Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 191,430</u>
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5. Another element of that reconciliation explains that "Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Net pension obligation – 1925 Police Officers' Pension Plan	\$(11,417,064)
Net pension obligation – 1937 Firefighters' Pension Plan	<u>(18,616,590)</u>
Net adjustment to increase fund balance – total governmental	
Funds to arrive at net assets – governmental activities	<u><u>\$(30,033,654)</u></u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

1. The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay per fund statements	\$ 3,614,550
Financing through capital lease	(1,855,350)
Capital outlay items costing less than the capitalization threshold	(543,663)
Depreciation expense	<u>(3,714,560)</u>

Net adjustment decrease net changes in fund balances – total governmental	
funds to arrive at changes in net assets of governmental funds	<u><u>\$ (2,499,023)</u></u>

2. The net effect of various transactions involving capital assets (i.e., sales trade-ins, and donations) is to decrease net assets. The details of this difference are as follows:

Disposal of capital assets	\$ (2,083,987)
Accumulated depreciation of disposed capital assets	<u>1,747,285</u>

Net adjustment decrease net changes in fund balances – total governmental	
funds to arrive at changes in net assets of governmental funds	<u><u>\$ (336,702)</u></u>

3. Another element of the reconciliation states that "Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds." The details of this difference are as follows:

Deferred revenue unavailable, ending balance	\$ 2,085,589
Deferred revenue unavailable, beginning balance	<u>(2,054,359)</u>

Net adjustment increases net changes in fund balances – total governmental	
funds to arrive at changes in net assets of governmental funds	<u><u>\$ 31,230</u></u>

4. Another element of the reconciliation states that "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities." The details of this difference are as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Principal repayments:	
General obligation bonds	\$ 565,000
Capital lease financing	321,476
Other debt related costs:	
Change in accrued interest on bonds and leases	(7,685)
Amortization of bond issue costs	<u>(11,495)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 867,296</u>
5. Another element of that reconciliation states that "Net pension obligations are considered long-term obligations of the general government, but are not current expenditures." The details of this difference are as follows:	
Net pension obligation, beginning	\$ (30,522,482)
Net pension obligation, ending	<u>(30,033,654)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 488,828</u>
6. Another element of that reconciliation states "Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:	
Beginning compensated absences payable (due beyond one year)	\$ (918,846)
Ending compensated absences payable (due beyond one year)	<u>(910,345)</u>
Net adjustment increases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 8,501</u>
7. Another element of that reconciliation states "Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities." The details of this difference are as follows:	
Change in net assets per funds statement	\$ 450,433
Net revenue reported as business-type activities	<u>(57,309)</u>
Net adjustment decreases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 393,124</u>
8. Another element of the reconciliation states "other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The net effect is as follows:	
Change in prepaids	\$ (6,955)
Change in inventories	<u>(120,355)</u>
Net adjustment decreases net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ (127,290)</u>

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at fiscal year end.

On or before August 31, the City Controller submits to the Common Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the City Controller receives approval of the Indiana Department of Local Government Finance.

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

Expenditures did not exceed appropriations for any funds or any departments within the General Fund, which required legally, approved budgets.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2006, expenditures exceeded budgeted appropriations in the following fund, by the amount below:

<u>Fund</u>	<u>Amount</u>
Economic Development Income Tax	<u>\$ 1,458,566</u>

These expenditures were funded by current revenues.

C. Deficit Fund Equity

At December 31, 2006, the following funds reported deficits in fund equity, which are violations of State statute:

	<u>Deficit</u>
Governmental funds:	
Airport Runway Grant	\$ 28,875
FEMA Safety Education Grant	15,927
Federal Grant – Internet Crimes	3,533
Federal Grant – Traffic Safety	239
Federal Grant – Traffic Safety	4,624

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements; these deficits will be repaid from future revenues.



CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

IV. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006, the bank balance held at First National Bank in the amount of \$23,054,311 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor – City of Kokomo's name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the City had the following investments:

Investment Type	Primary Government	Investment Maturities (in Years)		
	Market Value	Less Than 1	1-2	More Than 2
Repurchase agreements	\$ 23,054,311	\$ 23,054,311	\$ -	\$ -

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	City's Investments Government Sponsored Investments
AAA	\$ 23,054,311

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of American government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The City does not have a formal policy in regards to foreign currency risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 18,984,854	\$ 34,288	\$ -	\$ 19,019,142
Construction in progress	<u>1,645,294</u>	<u>97,443</u>	<u>1,306,244</u>	<u>436,493</u>
Total capital assets, not being depreciated	<u>20,630,148</u>	<u>131,731</u>	<u>1,306,244</u>	<u>19,455,635</u>
Capital assets, being depreciated:				
Buildings	15,675,923	93,807	-	15,769,730
Improvements other than buildings	3,250,135	82,672	-	3,332,807
Machinery and equipment	14,216,261	2,748,594	2,083,987	14,880,868
Infrastructure being depreciated	<u>87,422,527</u>	<u>1,320,325</u>	<u>-</u>	<u>88,742,852</u>
Totals	<u>120,564,846</u>	<u>4,245,398</u>	<u>2,083,987</u>	<u>122,726,257</u>
Less accumulated depreciation for:				
Buildings	7,706,387	367,369	-	8,073,756
Improvements other than buildings	832,057	174,828	-	1,006,885
Machinery and equipment	9,458,828	957,371	1,747,285	8,668,914
Infrastructure being depreciated	<u>61,777,892</u>	<u>2,214,992</u>	<u>-</u>	<u>63,992,884</u>
Totals	<u>79,775,164</u>	<u>3,714,560</u>	<u>1,747,285</u>	<u>81,742,439</u>
Total capital assets, being depreciated, net	<u>40,789,682</u>	<u>530,838</u>	<u>336,702</u>	<u>40,983,818</u>
Total governmental activities capital assets, net	<u>\$ 61,419,830</u>	<u>\$ 662,569</u>	<u>\$ 1,642,946</u>	<u>\$ 60,439,453</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 110,854	\$ -	\$ -	\$ 110,854
Construction in progress	<u>289,363</u>	<u>3,409,494</u>	<u>-</u>	<u>3,698,857</u>
Total capital assets, not being depreciated	<u>400,217</u>	<u>3,409,494</u>	<u>-</u>	<u>3,809,711</u>
Capital assets, being depreciated:				
Collection system/infrastructure	41,409,561	38,732	-	41,448,293
Storm water system/infrastructure	36,787,803	135,530	-	36,923,333
Buildings	18,457,927	-	-	18,457,927
Improvements other than buildings	754,025	-	-	754,025
Machinery and equipment	<u>10,224,320</u>	<u>423,572</u>	<u>137,810</u>	<u>10,510,082</u>
Totals	<u>107,633,636</u>	<u>597,834</u>	<u>137,810</u>	<u>108,093,660</u>
Less accumulated depreciation for:				
Collection system	19,073,343	730,234	-	19,803,577
Storm water system	21,212,170	876,880	-	22,089,050
Buildings	4,685,759	451,680	-	5,137,439
Improvements other than buildings	29,407	15,399	-	44,806
Machinery and equipment	<u>3,666,613</u>	<u>646,243</u>	<u>113,198</u>	<u>4,199,658</u>
Totals	<u>48,667,292</u>	<u>2,720,436</u>	<u>113,198</u>	<u>51,274,530</u>
Total capital assets, being depreciated, net	<u>58,966,344</u>	<u>(2,122,602)</u>	<u>24,612</u>	<u>56,819,130</u>
Total business-type activities capital assets, net	<u>\$ 59,366,561</u>	<u>\$ 1,286,892</u>	<u>\$ 24,612</u>	<u>\$ 60,628,841</u>

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 637,257
Public safety	395,130
Public works, including depreciation of general infrastructure assets	2,200,505
Culture and recreation	397,700
Community development	<u>83,968</u>

Total depreciation expense - governmental activities	<u><u>\$ 3,714,560</u></u>
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Business-type activities:

Wastewater	<u><u>\$ 2,720,436</u></u>
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Capital assets held by the primary government's internal service funds are charged to the various functions based on their usage of the assets.

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2006</u>	<u>Committed</u>
Governmental Funds:		
Airport runway extension N. 3-18-08	\$ 203,390	\$ 56,610
Airport runway extension N. 3-18-13	11,120	130,880
Round-about (Boulevard and Park)	88,565	411,435
Park - Walkpath	<u>133,418</u>	<u>965,752</u>
Totals	<u><u>\$ 436,493</u></u>	<u><u>\$ 1,564,677</u></u>

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Nonmajor governmental	\$ 122,400
Nonmajor governmental	Nonmajor governmental	<u>33,357</u>
Total		<u><u>\$ 155,757</u></u>

The primary government typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the general fund to the debt service fund for current-year debt service requirements.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Leases

1. Operating Leases

The primary government has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$1,683.50. The following is a schedule by years of future minimum rental payments as of December 31, 2006:

	<u>Governmental Activities</u>
2007	\$ 20,202
2008	19,158
2009	15,011
2010	<u>1,308</u>
Total	<u>\$ 55,679</u>

2. Capital Leases

The primary government has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2006, are as follows:

	<u>Governmental Activities</u>
2007	\$ 658,367
2008	568,171
2009	568,171
2010	568,171
2011	<u>302,881</u>
Total minimum lease payments	2,665,761
Less amount representing interest	<u>237,889</u>
Present value of net minimum lease payments	<u>\$ 2,427,872</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 2,390,761
Accumulated depreciation	<u>(165,882)</u>
Total	<u>\$ 2,224,879</u>

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Long-Term Liabilities

1. General Obligation Bonds

The primary government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Seashore pool complex	3.75% to 4.375%	\$ <u>3,665,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2007	\$ 590,000	\$ 144,913
2008	620,000	121,012
2009	655,000	95,812
2010	690,000	69,100
2011	730,000	40,000
2012	<u>380,000</u>	<u>8,313</u>
Totals	<u>\$ 3,665,000</u>	<u>\$ 479,150</u>

2. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1999 Sewage Works Refunding Bonds	4.25% to 5.00%	\$ 7,115,000
2005 Sewage Works Revenue Bonds	4.00% to 4.50%	<u>11,270,000</u>
Total		<u>\$ 18,385,000</u>

Revenue bonds debt service requirements to maturity are as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Year Ended December 31	Business-Type Activities	
	Principal	Interest
2007	\$ 2,245,000	\$ 813,333
2008	2,370,000	699,583
2009	2,500,000	579,458
2010	455,000	480,832
2011	475,000	462,432
2012-2016	2,695,000	2,002,797
2017-2021	3,380,000	1,374,127
2022-2026	<u>4,265,000</u>	<u>546,168</u>
Totals	<u>\$ 18,385,000</u>	<u>\$ 6,958,730</u>

3. Notes and Loans Payable

The primary government has entered into loans for improvements to the wastewater treatment plant. Under terms of the State Revolving Loan Fund, revenue bonds have been purchased by the Indiana Bond Bank, the proceeds of which are set aside to finance the construction of capital improvements at the Wastewater Treatment Plant. Funds are loaned to the City as construction costs are accrued to the maximum allowed. The 1999 loan established a maximum draw of \$11,915,000 and the 2001 loan established a maximum draw of \$8,670,000. As of December 31, 2006, the loan principal balances were \$11,915,000 and \$7,485,000, respectively. Annual debt service requirements to maturity for the loans, including interest of \$6,145,105, are as follows:

Year Ended December 31	Business-Type Activities		
	Principal	Interest	Total
2007	\$ 370,000	\$ 675,850	\$ 1,045,850
2008	370,000	662,814	1,032,814
2009	375,000	649,776	1,024,776
2010	1,300,000	628,688	1,928,688
2011	1,345,000	582,751	1,927,751
2012-2016	7,475,000	2,166,822	9,641,822
2017-2021	7,565,000	762,654	8,327,654
2022-2026	<u>600,000</u>	<u>15,750</u>	<u>615,750</u>
Totals	<u>\$ 19,400,000</u>	<u>\$ 6,145,105</u>	<u>\$ 25,545,105</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation	\$ 4,230,000	\$ -	\$ 565,000	\$ 3,665,000	\$ 590,000
Capital leases	894,000	1,855,350	321,479	2,427,871	568,820
Compensated absences	965,347	-	54,558	910,789	444
Net pension obligation	<u>30,522,482</u>	<u>-</u>	<u>488,828</u>	<u>30,033,654</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 36,611,829</u>	<u>\$ 1,855,350</u>	<u>\$ 1,429,865</u>	<u>\$ 37,037,314</u>	<u>\$ 1,159,264</u>
Business-type activities:					
Revenue bonds payable:					
Wastewater Utility	\$ 20,525,000	\$ -	\$ 2,140,000	\$ 18,385,000	\$ 2,245,000
Bond discount	(15,500)	-	(695)	(14,805)	-
Bond premium	<u>74,438</u>	<u>-</u>	<u>30,280</u>	<u>44,158</u>	<u>-</u>
Total revenue bonds payable	20,583,938	-	2,169,585	18,414,353	2,245,000
Less deferred amount on refunding	(592,576)	165,370	-	(427,206)	-
Notes and loans payable	19,598,845	156,155	355,000	19,400,000	355,000
Compensated absences	<u>200,395</u>	<u>33,453</u>	<u>-</u>	<u>233,848</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 39,790,602</u>	<u>\$ 354,978</u>	<u>\$ 2,524,585</u>	<u>\$ 37,620,995</u>	<u>\$ 2,600,000</u>

Compensated absences for governmental activities typically have been liquidated from the general fund.

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Revenue bond operations and maintenance account     \$ 14,199,633

H. Restatements and Reclassifications

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type. The Barrett Law Surplus Fund was reclassified from an agency fund to a special revenue fund as of December 31, 2006.

<u>Opinion Unit</u>	<u>Balance as Reported December 31, 2005</u>	<u>Fund Reclassification</u>	<u>Balance as Restated January 1, 2006</u>
Governmental activities	<u>\$ 44,908,114</u>	<u>\$ 233,656</u>	<u>\$ 45,141,770</u>



CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

V. Other Information

A. Risk Management

The primary government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The primary government has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents; job related illnesses or injuries to employees. The risk financing fund is accounted for in the Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year for medical benefits and claims in excess of \$1,000,000 for job related illnesses or injuries to employees. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund based primarily upon the percentage of each fund's payroll as it relates to total payroll, and are reported as quasi-external fund transactions.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2005</u>	<u>2006</u>
Unpaid claims, beginning of fiscal year	\$ 514,653	\$ 709,173
Incurred claims and changes in estimates	7,637,701	7,816,667
Claim payments	<u>(7,443,181)</u>	<u>(8,032,153)</u>
Unpaid claims, end of fiscal year	<u>\$ 709,173</u>	<u>\$ 493,687</u>

B. Postemployment Benefits

In addition to the pension benefits described below, the primary government provides postemployment health, dental and vision benefits, as authorized by Indiana Code 5-10-8, to all police, firefighters, AFSCME members, and noncontractual employees (all other full-time nonelected employees) who retired from the City. Currently, 113 retirees meet these eligibility requirements. The primary government provides 95%, 88%, and 75%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The primary government contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the primary government authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the primary government and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the primary government and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds. The NPO is considered an obligation of the City and is reflected in the Statement of Net Assets.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 870,931	\$ 2,806,700	\$ 3,751,400
Interest on net pension obligation	(28,400)	691,600	1,139,800
Adjustment to annual required contribution	<u>32,364</u>	<u>(837,700)</u>	<u>(1,380,500)</u>
Annual pension cost	874,895	2,660,600	3,510,700
Contributions made	<u>653,217</u>	<u>2,769,814</u>	<u>3,890,314</u>
Increase (decrease) in net pension obligation	221,678	(109,214)	(379,614)
Net pension obligation, beginning of year	<u>(391,725)</u>	<u>11,526,278</u>	<u>18,996,204</u>
Net pension obligation, end of year	<u>\$ (170,047)</u>	<u>\$ 11,417,064</u>	<u>\$ 18,616,590</u>

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.50%	104%	111%
Plan Members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-06	01-01-06
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 509,454	113%	\$ (364,277)
	06-30-05	609,979	125%	(391,725)
	06-30-06	874,895	107%	(170,047)
1925 Police Officers' Pension Plan	12-31-03	4,258,500	33%	9,017,056
	12-31-04	4,230,700	41%	11,526,278
	12-31-05	2,660,600	104%	11,417,064
1937 Firefighters' Pension Plan	12-31-03	5,747,500	32%	16,156,383
	12-31-04	5,602,800	49%	18,996,204
	12-31-05	3,510,700	111%	18,616,590

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

CITY OF KOKOMO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	33	137
Current active employees	2	11

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$2,003,155, \$1,904,535, and \$1,818,182, respectively, equal to the required contributions for each year.

CITY OF KOKOMO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 12,706,058	\$ 14,382,031	\$ (1,675,973)	88%	\$ 10,730,507	(16%)
07-01-05	13,208,002	17,188,130	(3,980,128)	77%	11,917,028	(33%)
07-01-06	13,785,278	16,982,065	(3,196,787)	81%	11,929,877	(27%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 1,663,150	\$ 42,046,100	\$ (40,382,950)	4%	\$ 344,700	(11,715%)
01-01-02	4,032,578	42,432,300	(38,399,722)	10%	359,300	(10,687%)
01-01-03	3,218,920	40,186,700	(36,967,780)	8%	492,700	(7,503%)
01-01-04	1,804,258	40,515,600	(38,711,342)	4%	253,400	(15,277%)
01-01-05	740,369	39,003,200	(38,262,831)	2%	217,100	(17,625%)
01-01-06	218,299	39,911,100	(39,692,801)	1%	173,700	(22,851%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 1,659,107	\$ 59,030,300	\$ (57,371,193)	3%	\$ 916,800	(6,258%)
01-01-02	4,326,643	58,305,800	(53,979,157)	7%	838,400	(6,438%)
01-01-03	4,012,592	53,611,600	(49,599,008)	7%	1,031,100	(4,810%)
01-01-04	2,058,079	54,613,700	(52,555,621)	4%	724,500	(7,245%)
01-01-05	1,126,307	50,867,700	(49,741,393)	2%	529,600	(9,392%)
01-01-06	336,742	52,810,400	(52,473,658)	1%	485,500	(10,808%)

CITY OF KOKOMO  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS FROM THE  
EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-00	\$ 4,168,700	69%	30%
12-31-01	4,311,600	65%	62%
12-31-02	4,517,500	17%	34%
12-31-03	4,537,200	0%	31%
12-31-04	4,685,300	0%	37%
12-31-05	2,806,700	27%	72%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-00	\$ 5,858,700	55%	26%
12-31-01	6,176,200	19%	53%
12-31-02	6,301,600	24%	31%
12-31-03	6,300,100	0%	29%
12-31-04	6,417,400	8%	35%
12-31-05	3,751,400	38%	65%

CITY OF KOKOMO  
AUDIT RESULTS AND COMMENTS

LEAVE AND OVERTIME POLICY

As reported in prior Report B28822, several newly hired department heads were given the same amount of vacation time as an employee with five years of service. For this audit, the department heads continue to have less than five years of service with the City. This does not comply with the approved vacation leave policy. The policy bases the vacation leave time on the number of years of service. All employees should be given the amount of leave stated in the City's approved leave policy.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINANCE CHARGES

The City incurred, and subsequently paid, finance charges and late fees for delinquent payments to Cardmember Service, vendor for the City's credit cards. A finance charge in the amount of \$63.66 was paid August 9, 2006. Subsequent vendor statements were reviewed for additional finance and late fee charges. An additional \$244.73 was paid through the remainder of 2006.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISBURSEMENTS WITHOUT APPROPRIATIONS

Disbursements in the amount of \$1,486,143 were made in 2006 from the City's Economic Development Income Tax Fund for capital projects. We found evidence of only one appropriation approved by the City Council in the amount of \$63,492 for 2006. Additionally, we saw no evidence of the encumbrance of appropriations from 2004 or 2005.

Indiana Code 36-4-8-2 states in part: "Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if: (1) an appropriation has been made for that purpose and the appropriation has not been exhausted; . . ."

OVERPAYMENT COLLECTIONS

As reported in prior Report B28822, overpayments of \$8,448.08 were made to employees for the buyout of paid time-off, due to errors in the related computations. As of May 2007, the City has not made any attempts to collect these overpayments. Of the original amount of the overpayment, \$6,520.19 represents the amount owed from employees still employed by the City.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



CITY OF KOKOMO  
AUDIT RESULTS AND COMMENTS  
(Continued)

PREScribed FORMS

As reported in prior Report B28822, the City of Kokomo was using forms which had been conditionally approved for use in lieu of prescribed forms.

On December 9, 2004, the City submitted 18 forms for approval to the State Board of Accounts. The State Board of Accounts gave conditional approval for these forms on December 13, 2004. Most of the forms did not correlate with a prescribed form. In all instances it took more than one print-out to obtain the required information contained on the prescribed form. Many of the forms needed to replace prescribed forms had not been included in the request for approval. None of the forms contained the wording that the form was "Approved by the State Board of Accounts for the City of Kokomo, 2004," which was a condition of approval.

Based on the foregoing, these forms do not provide the required information of a prescribed form. If more than one form or printout is required to provide the information of a prescribed form, the City of Kokomo should request the multiple forms for use of the prescribed, with adequate explanation of what forms are replacing the prescribed form.

Officials need to have the forms the system produces approved by the State Board of Accounts and designate which prescribed form the system produced form replaces. If it requires more than one system generated form to produce the same information contained on the prescribed form, the unit will need to disclose all system generated forms needed to replace the prescribed form.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OPERATING FUNDS USED FOR CITY EXPENSES

The officials of the Wastewater Utility used operating funds to pay for expenses related to the City. In 2006, disbursements in the amount of \$83,909.80 were made from the Wastewater Utility to pay for operating expenses of the City's government cable programming. These amounts were not reimbursed by the City funds. In addition, \$43,600 of lobbying expenses were paid by Wastewater Utility funds.

Indiana Code 8-1.5-3-11(d) states in part: "... transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Expenses paid from utility funds should be directly related to the operations of the municipally owned utility. Expenditures for city operating costs should not be paid from utility funds. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF KOKOMO, HOWARD COUNTY, INDIANA

### Compliance

We have audited the compliance of the City of Kokomo (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 15, 2007

CITY OF KOKOMO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education Child and Adult Care Food Program FY 2006	10.558	FY2006	\$ 37,632
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant			
Community Development Block Grants/Entitlement Grants	14.218		
		B-06-MC-18-0014	401,254
		B-05-MC-18-0014	371,787
		B-04-MC-18-0014	128,748
		B-03-MC-18-0014	17,619
Total for federal grantor agency			919,408
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute Crime Victim Assistance	16.575		
		03ST075	12,240
		05VA048	16,533
Total for program			28,773
Byrne Formula Grant Program	16.579		
FY 2004		2004-DB-021	142,500
FY 2004		2004-DB-055	71,640
FY 2005		2005-DJ-079	10,157
Total for program			224,297
Local Law Enforcement Block Grant Program	16.592		
		2006-DJ-BX-0826	1,588
		2005-DJ-BX-1166	43,331
		2004-LB-BX-1295	947
Total for program			45,866
Total for federal grantor agency			298,936
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Safety Cluster			
Federal Transit Formula Grant	20.507		
		IN-90-X335-00	34,760
		IN-90-X494-00	594,299
		IN-90-X475-00	103,129
Total for program			732,188
State and Community Highway Safety	20.600		
		PT-06-04-0717	31,896
		J8-06-04-04-1	7,635
		CG-DUI-Taskforce	7,237
Total for program			46,768

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF KOKOMO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2006  
(Continued)

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u>			
Direct Grant			
Airport Improvement Program	20.106		
		3-18-0044-08	4,238
		3-18-0044-11	15,528
		3-18-0044-12	<u>65,764</u>
Total for program			<u>85,530</u>
Total for federal grantor agency			<u>864,486</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds	66.458		
		CS-182293-02	<u>289,520</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Family and Social Services Administration Special Programs for the Aging, Title III, Part B Grants for Supportive Services and Senior Centers	93.044		
		FY2005	<u>20,976</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Hazard Mitigation Grant	97.039		
		FEMA-1487-DR-IN	<u>93,933</u>
Assistance to Firefighters Grant	97.044		
		EMW-2005-FG-02840	109,304
		EMW-2005-FP-01178	<u>15,927</u>
Total for program			<u>125,231</u>
Total for federal grantor agency			<u>219,164</u>
Total federal awards expended			<u><u>\$ 2,650,122</u></u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF KOKOMO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kokomo (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note II. Subrecipients

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2006:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Crime Victim Assistance Grant	16.575	\$ 28,773
Byrne Formula Grant	16.579	108,775



CITY OF KOKOMO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
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Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	no
--	----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
20.507	Federal Transit Formula Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	no
--	----

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF KOKOMO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF KOKOMO  
EXIT CONFERENCE

The contents of this report were discussed on August 17, 2007, with Matt McKillip, Mayor; Phillip P. Williams, Controller; Thu Caven, Deputy Controller; Michael H. Karickhoff, President of the Common Council; Robert L. Hays Sr., City Council Finance Chairman; and Jonathan L. Mays, Corporation Counsel. The official response has been made a part of this report and may be found on pages 66 through 70.



August 27, 2007

Indiana State Board of Accounts  
302 West Washington Street  
Room E 418  
Indianapolis, Indiana 46204-2738

RE: *Official Response to 2006 Indiana State Board of Accounts Audit Results*

Please accept this correspondence as a response, pursuant to Indiana Code section 5-11-5-1(b), to Audit Results and Comments produced on August 17, 2007 during the City's exit conference with the Examiner. I am proud that for the third year in a row (2004, 2005 and 2006) the City of Kokomo received an unqualified audit opinion, meaning no material deficiencies exist in our accounting practices and procedures.

This response to the State Board of Accounts' 2006 audit relies on information contained in records maintained by the City of Kokomo and knowledge conveyed from the administration's department heads and employees. The City's responses reflect a true and accurate representation to the best of our knowledge and belief according to the information we have received.

#### **LEAVE TIME POLICY**

The State Board of Accounts comments that the City's department heads received the same amount of vacation as an employee with five years of service even though the department head had not worked for the City five or more years. After researching the past practices and policies of the City, prior City administrations provided department heads with the same vacation time, allowing the City to attract quality people for leadership positions. A memo from a prior administration outlines this policy, and the City shared this memo, and several other supporting documents, with the State Board of Accounts on several occasions. The City has also adopted this as a policy in its written policies contained in the City's employee handbook. We believe this comment has been resolved.

#### **FINANCE CHARGES**

The State Board of Accounts commented that in 2006, the incurred finance charges and late fees for payments to Card member Services. When this was brought to the attention of the Controller, he immediately changed the procedure for processing payments to this vendor, which resulted in no more charges. The issue was the city's procedure did not allow for payment to the vendor before the short timing of the due date, which then triggered finance charges. We have since been working with Card member Services to get the finance charges credited back to the city's account. This comment has been resolved.

*Official Response to 2006 Indiana State Board of Accounts Audit Results*

1

**Matt McKillip, Mayor**

City Hall 100 South Union Street Kokomo, Indiana 46901 • Tel: (765) 456.7444 • Fax: (765) 456.7571  
e-mail: [mayor@cityofkokomo.org](mailto:mayor@cityofkokomo.org) "City of Firsts" web: [www.cityofkokomo.org](http://www.cityofkokomo.org)

## **DISBURSEMENTS WITHOUT APPROPRIATIONS**

The State Board of Accounts comments that during the 2006 fiscal year, the City of Kokomo released EDIT funds without appropriation or encumbrance. The City understands that the State Board of Accounts cannot render legal opinions, as the accountants who have audited the City of Kokomo are not attorneys. We also understand that the EDIT statutes and Indiana Code are sufficiently unclear, allowing reasonable legal minds to disagree. In fact, in calling around the state, we have learned that many taxing units handle EDIT differently based on different interpretations of the EDIT statutes.

In its comments, the State Board of Accounts directed the City of Kokomo to Indiana Code section 36-4-8-2 as the basis for its comment regarding EDIT appropriation, which states as follows:

Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted;
- (2) the warrant is for a salary fixed by statute or ordinance;
- (3) the warrant is for a claim allowed under section 5 of this chapter;
- (4) he is ordered to issue the warrant under section 3 of this chapter;
- (5) the warrant is for payment of a judgment that the city must pay; or
- (6) the warrant is for interest due on city bonds.

The City of Kokomo does not dispute that the City cannot released funds without appropriations. In fact, the Kokomo City Council indeed unanimously appropriated \$5,300,000.00 in EDIT funds for the 2004-2005 EDIT Capital Improvement Plan (CIP) with Ordinance 6302 on May 11, 2004. Therefore, since the City Council appropriated funds, the City has complied with Section 36-4-8-2. As a result, this comment should be removed.

Furthermore, there is no specific statute in the Indiana Code that states EDIT funds must be annually appropriated. In fact, there are Indiana Statutes that outline funding as it relates to capital projects. Given EDIT is a capital project fund and has a capital project plan that must be prepared at least every two years, highlighting capital projects which could span two or more years, these statutes are applicable.

One may look to statutes discussing budget spending for assistance. Generally, funds appropriated in the budget for the City of Kokomo revert at the end of the fiscal year. However, budget funds are appropriations of general funds and generally do not include capital projects which are commonly funded and spelled out in other funds such as EDIT.

We believe the EDIT statutes indirectly indicate that EDIT appropriations expire when the specific projects cease or are abandoned, not on an annual basis. Indiana Code section 6-3.5-7-15 requires the City to adopt a CIP. Indiana law also requires, among other things, that the CIP "must encompass a period of no less than two (2) years." IND. CODE § 6-3.5-7-15. If the Indiana General Assembly truly required annual appropriations of EDIT funds, the General Assembly would have required the CIP not to exceed one (1) year. Because of this two (2) year minimum, we believe this indicates annual appropriations are not required, therefore this comment should be removed.

EDIT funds are intended for capital projects. IND. CODE § 6-3.5-7-13.1. As such, capital projects funds, once appropriated for specific projects, shall not lapse until those projects are completed:

Appropriations of money from the capital projects fund and proceeds of bonds, notes, and other written obligations issued by or in the name of any:

- (1) county, township, city, incorporated town;
- (2) school corporation, state educational institution, or state supported institution of higher learning; or
- (3) other political, municipal, public or quasi-public corporation, special assessment or taxing district, or any authorized body of that corporation or district;

for a specific project shall not lapse at the end of the year in which the appropriation was made, but shall remain in full force and effect without re-appropriation until the purpose for which the appropriation was made has been accomplished or abandoned.

IND. CODE § 5-1-2-1 (emphasis supplied). The City of Kokomo, in cooperation with the Kokomo Common Council, provided a list of specific projects in its 2004 CIP indicating how the City would use EDIT funds once appropriated. The Kokomo Common Council appropriated the funds with Ordinance 6302. Therefore, under Section 5-1-2-1, it appears the appropriation would not lapse until the City accomplished or abandoned those specific projects. As a result, this comment should be removed.

In summary, the City respectfully requests the Indiana State Board of Accounts to remove this comment. If this comment is removed, the City further asks that this section of the response also be removed from the public disclosure. The City believes that reasonable legal minds may disagree as to the interpretation of Indiana's EDIT statutes. The City's administration has worked with the Common Council to develop an internal process and resolve this gray area in Indiana Code for the benefit of Kokomo and its citizens. As a result, removal of this comment is appropriate.

## **OVERPAYMENT COLLECTIONS**

The State Board of Accounts commented that in 2004, the City overpaid employees during the buyout of Paid Time Off (PTO). After reviewing this audit comment, the City realized that the State Board of Accounts used a policy that went into affect in January 2005 for a conversion that took place in December 2004. However, the City did employ a process for conversion that was jointly developed by our Human Resources Department and a committee of city employees. In addition the city has adopted a policy that outlines this 2004 comment was also contained in the 2005 audit comments.

The PTO conversion for the City process resulted from conversations between the State Board of Accounts and the City's human resources department in early 2004 regarding issues the examiner found with our payments of sick pay, vacation pay, and personal days. After much discussion, the City decided to convert to a PTO system for the benefit of city employees and the City of Kokomo. This presented a large and complex issue, as City employees had accrued large amounts of sick time, vacation time, and personal time under the old system.

The conversion process that was developed and implemented is outlined below:

- The process required converting sick time at the rate of one (1) day per month and three (3) personal days per year. This conversion was easily made.
- To determine the number of vacation days to which the employee was entitled, the City divided the current number of vacation days for that employee by twelve (12), producing a monthly amount. Next, City employees received seniority credit that the month in which the conversation occurred. For example, an employee who earned twenty-seven (27) vacation days each year then had the twenty-seven (27) days divided by twelve (12) months, resulting in 2.25 days of vacation days per month. If that employee's seniority date was anytime in the month of August, they were given credit for eight (8) months, multiplied by 2.25 days. This equaled eighteen (18) vacation days converted to PTO system.

The process as outlined above allowed the City to convert fairly to the PTO system while remaining responsible stewards of taxpayer dollars. The City believes the conversion was successfully and accurately completed and does not agree with the State Board of Account's comments. Therefore, the City respectfully believes further corrections are not necessary.

## **PRESCRIBED FORMS NOT IN USE – APPROVAL OF FORMS**

The State Board of Accounts comments that the City uses conditionally approved forms in lieu of prescribed forms. This is a comment also raised after the 2004 and 2005 audit. The City submitted all the necessary forms and reports from the new accounting software for approval by the State Board of Accounts in late 2004. The City received preliminary approval of

the forms pending the field auditor's review in 2005. The field auditor in 2005 did not approve the forms and suggested the city may have to adjust its computer system accordingly to comply.

After reviewing and discussing the comment with the new State Board of Accounts field auditor during the 2006 exit conference the city was able to develop a solution that will resolve this comment. The field auditor suggested the city to develop a table they can reference to get the proper data out of the city's system for the prescribed forms. The controller's office is currently developing the table and will work with the field auditor in the next audit to finalize it.

In closing, I thank the Indiana State Board of Accounts for their efforts in helping the City receive its third unqualified audit in as many years. In addition, I would like to thank the State Board of Accounts for their hard work throughout the audit and for the feedback presented to me during the exit conference. Should you have further questions, please feel free to contact our offices.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt McKillip", written in a cursive style.

Matt McKillip  
Mayor of Kokomo